

**MEMORANDUM FOR
THE CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM**

Washington Monthly Report

It finally took the aroma of turkey and the onset of Thanksgiving to force Congress to complete its budget negotiations with the President and adjourn for the rest of the year.

Congress will return to session on January 24. The next big event will be the President's State of the Union speech that week, followed by the President's submission to Congress in early February of his proposed budget for FY 2001.

Our November Monthly Report (attached) provides a detailed discussion of the status and outlook for most of the legislative issues on STRS's agenda. Accordingly, this report will provide an update where relevant.

Elk Hills Compensation

The legislative vehicle for the Elk Hills compensation provision – the Interior Appropriations bill – was one of the last measures completed in the omnibus budget negotiations between Congressional leaders and the White House.

We are pleased to report the final Interior Appropriations legislation passed by Congress and signed into law by the President contains the \$36 million appropriation to pay to the Teachers' Retirement Fund the next installment of compensation, due for FY 2000. Under the legislation, the payment will be due on October 1, 2000.

With the payment, STRS will have collected \$72 million of the \$324 million due in annual installments under the Elk Hills settlement we helped negotiate with the Federal government. STRS and its members owe a great debt of gratitude to the continuing tireless efforts of our principal Congressional champion on the Elk Hills issue over the last decade, Rep. Bill Thomas (R-Bakersfield). Securing the necessary Congressional appropriation for the \$36 million installment for FY 2000 required the marshaling of the entire California Congressional delegation to sign onto a strong letter of support to the Congressional appropriators, persuading the senior White House staff to make Elk Hills an Administration priority in the budget, working with Senator Feinstein who became personally involved in the issue with her Senate colleagues, assembling a second letter from all 7 Californians on the House Appropriations Committee to the Chairmen of the full Committee and the Subcommittee, and ultimately the personal intercession of Rep. Thomas with the House GOP Leadership, joined by the senior Californian on House Appropriations Rep. Jerry Lewis (R-Redlands).

STRS's active and retired members should acknowledge the support of their local Member of Congress, each of whom signed onto the California delegation letter. In addition, particular thanks is due, in addition to Rep. Thomas, to the Californians who serve on House Appropriations – Reps. Jerry Lewis (R-Redlands), Ron Packard (R-San Clemente) who is retiring at the end of next year, Randy "Duke" Cunningham (R-Escondido), Julian Dixon (D-Los Angeles), Nancy Pelosi (D-San Francisco), Lucille Roybal-Allard (D-Los Angeles), and Sam Farr (D-Santa Cruz). Reps. Lewis and Farr, as the Co-Chairs of the California Congressional delegation helped to circulate the delegation letter for signature.

We will have to go back to these same Members of Congress next year to actively pursue the Congressional appropriation that is necessary for the next \$36 million of Elk Hills compensation that is due for FY 2001, and it is very useful to our efforts for these Members to feel that their constituents appreciate their help. There is sufficient lingering resentment of the Elk Hills settlement among Congressional appropriators from other States that without these active legislative efforts by STRS, it would be doubtful that the necessary appropriation would be forthcoming.

Mandatory Social Security

This year's Congressional session ended without any significant legislative movement towards Social Security reform.

Rep. Clay Shaw (R-Fla.), Chairman of the House Ways and Means Social Security Subcommittee, remains interested in moving forward next year with the reform proposal that he developed along with House Ways and Means Chairman Bill Archer (R-Tex.). The Archer-Shaw proposal is built around the concept of private accounts with options for investment in the equities and bond markets and then providing the participant with the greater of his or her annuitized account balance or Social Security benefit calculated under the current law formula.

The Archer-Shaw proposal may be introduced in legislative form for the first time shortly after Congress returns in late January. However, with the looming battle for control of the House of Representatives in the November elections, the House GOP Leadership is likely to have the major say on whether and how the Ways and Means Committee moves forward on the Social Security reform front. The President has not yet made clear his plans on the issue for next year.

A recent report by the Social Security Advisory Board, a panel of technical experts which advises the Social Security trustees, has suggested updating the various actuarial and investment return assumptions currently used in fiscal projections for the Social Security trust fund. These recommendations include recognizing that Social Security recipients are living longer and hence collecting a longer stream of benefits than had been assumed. If all of the Advisory Board's recommendations are adopted, the Social Security trust fund's long-term deficit is projected to increase by some 25 percent, from 2.07 of taxable payroll to 2.60 percent. Such a worsening of the Social Security deficit could restore some momentum to the bogged-down Congressional debate over Social Security reform.

However, with the additional time off for the party conventions over the summer and the earlier adjournment with the elections, it is expected that next year's Congressional session will be relatively short, with the principal focus on passing the 13 appropriations measures necessary to keep the government running. Congressional Republicans and Democrats are likely to stake out their positions on major issues such as Social Security, but it seems unlikely that significant legislative progress will occur on Social Security reform, particularly in the absence of a major leadership effort by the President. With a mere five-seat spread in the House of Representatives, both parties will be fighting for the handful of seats necessary to gain control of the House -- as well as to claim the White House -- and will be wary of antagonizing any significant group of voters by actually moving legislation and making hard choices. Each side may be content to assert that it is protecting the Social Security surplus from efforts by the other side to dissipate the surplus through new spending or major tax cuts, leaving true reform to another day.

All that said, our task remains the same: to continue to hammer home with the California Congressional delegation and with key Members of the Congressional tax-writing committees why mandatory Social Security coverage for State and local governments and their employees is not an answer for funding Social Security reform.

Medicare Cost Issues for STRS Retirees

As discussed in more detail in the attached November Monthly Report, we will continue to work with STRS staff, constituent groups, and key Members of the California Congressional delegation to explore possible solutions to the Medicare Part A cost problems for certain STRS retirees that were identified by the recent Health Benefits Task Force Report.

We have provided STRS staff with copies of the changes to the Medicare program that were adopted as part of this year's omnibus appropriations legislation in an effort to alleviate some of the harsher cutbacks in Medicare that had been enacted in the Balanced Budget Act of 1997. We will be coordinating with STRS staff to determine whether any of this year's changes to the Medicare+Choice will alleviate some of the difficulties which STRS retirees have been confronting with respect to Medicare benefits provided through health maintenance organizations (HMOs) in California.

Proposed Pension Tax Changes to Liberalize Benefit Limits and Portability

The package of proposed pension tax law changes to liberalize limits on benefits under retirement plans and to facilitate portability of benefits among various types of State and local government plans was not enacted into law this year. Congress adopted only a very narrow tax package that extended a handful of expiring tax incentive provisions.

Nonetheless, it is expected that most of these proposed pension tax changes, including the provisions enhancing public sector portability, will be included in the next significant tax measure that is enacted by Congress. The pension changes, including the public sector provisions, enjoy broad bipartisan support among Members of the Congressional tax-writing committees. In addition, after years as an arcane issue that caused most eyes on Capitol Hill to

glaze over after five minutes, retirement security finally has caught on as a legislative theme of both parties and now ranks on a par with education as a priority. Both parties have an eye on appealing to the graying Baby Boom generation.

We also have been actively involved on this front and will keep the Board apprised of developments.

John S. Stanton

December 8, 1999